

Venice Summit 25X1*to
US
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5 November 1986

MEMORANDUM FOR THE RECORD

SUBJECT: Meetings at the NSC and Treasury, October 29 and
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1. [] met with Steve Danzansky, Special Assistant to the President and Senior Director for International Affairs, NSC, and his assistant Alex Platt on Wednesday, October 29 to get acquainted and to discuss DI support for the June 1987 Venice Economic Summit. Both EURA personnel also met with Treasury's Bob Fauver, head of Office of Industrial Nations and Global Analyses, to discuss the Summit, the FY 87 Research Program and to share views on various substantive issues. Danzansky was very complimentary about past support and NSC-EURA cooperation. In particular, he complimented [] for his support efforts and for his [] participation in briefings at the Tokyo Summit.

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2. The dates for the Venice Summit are now set for 8-10 June with the second Sherpa meeting planned for 4-6 February 1987. He confirmed that not much happened at the first Sherpa meeting in October in Taormina, Italy. He did stress that the Italians wanted a more satisfactory resolution of the G-7 issue. The Italian Ambassador recently suggested that if the G-7 is not allowed to play a more meaningful role, the Italians might not deliver in terms of cooperation with the US at the Summit.

3. We discussed the content and timing of the first set of papers and Danzansky requested the usual work on the political and economic situation of the Summit countries and their early views on upcoming Summit issues. In addition, Danzansky would like us to do a cross cutting look at the implementation of agreements reached at the Tokyo Summit, particularly on such issues as macroeconomic coordination of policy, agriculture, and Third World debt. Danzansky also requested us to include in our Summit papers some graphics

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on objective economic indicators, e.g., GNP; unemployment; the ratios of budget deficits to GNP and current account deficits to GNP, prices, etc. He asked about our capacity to do graphics and might request us to do the graphics for the actual briefing book. We had hoped to wait until January to produce the first paper since the Sherpa meeting is not until early February, but Danzansky stressed that it would be useful to have the paper in the second week of December to help them absorb the material, as well as to support an OECD meeting. He gave us a copy of the briefing book that was used at the October Sherpa meeting to help us get some feel for the issues facing the Venice Summit.

4. With respect to specific Summit issues, while agreeing that it was really too early to identify what would be on the horizon for 1987, he expected that many of the same issues from last year would be important again, particularly macroeconomic coordination of policy and agriculture. He did not expect that space, trade, and high-tech issues would be as important next year. Terrorism would likely remain important as well as arms control, and there might be some interest in the Allied response to new Soviet economic initiatives, not just in terms of trade and finance, but also with respect to membership in international economic organizations. Danzansky also expressed considerable interest in papers on the political situation in the Summit countries, and specifically mentioned uncertainties about the Italian government, the impact of the German election, how Chirac and Mitterrand would work out French positions on Summit issues, and the outlook for the UK election.

5. Danzansky also mentioned that there might be some interest in another video for the Summit, particularly if there are any changes in governments. In this regard, he suggested that we contact Frank Lavin, Deputy Assistant Secretary for Coordination, early in the new year.

6. Bob Fauver at Treasury expressed interest in a number of papers that we have planned for this year and stressed the usefulness of a multi-disciplinary approach to analyzing economic issues. He suggested, for example, that we do a short paper on "Mitterrand versus Chirac - Prospects for Economic Negotiation." On the issue of unemployment, he hoped that we would consider structural problems, policy rigidities, and political constraints to market deregulation. With respect to Germany, he will be

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[redacted]

interested in how fast and to what extent the new German government will be willing to implement tax reforms.

7. In discussing EURA's planned IA on the West European capital markets, he thought that such a paper could be done on the individual countries by reliance on Treasury attache reporting, but he stressed that it would be important to have a first rate economist taking a look at the broader implications of changes in the markets; he suggested a contract with [redacted] or possibly someone from [redacted]. He noted that there are lots of differences between Treasury and the Fed on this issue.

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8. On the UK, he is interested in the economic policies of the Labor Party and said he looked forward to reading [redacted] paper on the welfare state. He also would like to see something on the prospects of the UK joining the EMS and labor market reforms in the UK and how much they would help to stimulate growth. On Canada, he expressed interest in continuing coverage of the health of the Canadian banking system.

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9. We discussed the econometric work and capabilities of EURA and he inquired about the status of quarterly models on the Summit countries. We told him about the German quarterly model and about our contract [redacted] for a UK model. He asked us if we could do a short note to him on what models we had up and running and what they could do in terms of forecasting. He mentioned that the Bank of England world economic model was available for purchase.

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10. Unlike Danzansky, Fauver thought it was too early to start worrying about the Economic Summit. He also mentioned the possibility of CIA doing the Treasury graphics for the Summit briefing book. With respect to work in the IMF on the objective indicators as part of the surveillance process, he noted that there is still not agreement on which specific variables will be used.

11. We agreed to meet again to discuss issues of mutual interest, particularly as the Economic Summit approaches. Fauver was encouraging about working level contacts and we agreed to send him drafts of papers on economic subjects to secure the views of his analysts. On the whole, the meeting went very well and we found a lot of mutual interest. He made a special point of saying how strapped all the

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polycymaking agencies are in terms of resources and thought that CIA would be very important in helping to fill some of the gaps.

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